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Monthly Statistical Report

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SUMMARY

Although growth in petroleum deliveries appears to be slowing so far in 1989 as the pace of the economy moderates, an acceleration in the decline of crude oil production has led to a rise in imports nearly as large as last year's increase.

Imports for the first half rose 9 percent, only slightly less than last year's annual increase of 11.3 percent. For the first six months of 1989, imports averaged 7.8 million B/D, a level roughly 65 percent higher than in 1985 and exceeded for a similar period only in the late 1970s.

Crude oil production fell more than 500 thousand B/D or 6.2 percent in the first half, as the year-to-year increases of roughly 40 to 100 thousand B/D in Alaskan production, which had in recent years provided a partial offset to the lower 48's continued decline, were reversed. About half of Alaska's first half decline of 143 thousand B/D was due to temporary restrictions on tanker traffic arising from the accident near Valdez in late March. But even without this constraint, U.S. production would have still dropped by roughly 450 thousand B/D for the period. Declines in total domestic crude oil production since the substantial drop in world oil prices in 1986 had previously been running in the range of 210 to 330 thousand B/D annually.

As a result of these trends, total imports exceeded domestic crude oil production for the first half of 1989, a development which has occurred only once before for a similar period, in 1977. Additional supplies from petroleum liquids extracted from domestically-produced natural gas, however, helped to keep the supply balance tilted towards the domestic side. Even so, total imports still accounted for 45.4 percent of domestic deliveries in the first half.

Though consumption growth so far in 1989 has likely slowed from the more than 3 percent average growth in deliveries over the previous three years, the 0.6 percent increase in this year's first-half deliveries may understate consumption growth. One reason for this is that the first half's growth rate is calculated against recently-revised data for 1988 from the Department of Energy, which, as has been typical in recent years, are higher than previously published.

These new data have pushed 1988's growth in deliveries up from 3.0 percent to 3.7 percent, and have had a similar-sized, but opposite, effect on 1989's calculated increase. Revisions over the past several years in the range of from 0.7 to 0.9 percent suggest that a similar revision in DOE 1989 monthly data (incorporated in our year-to-date estimates) may eventually occur. This uncertainty fogs the interpretation of this year's deliveries data to some extent. Thus, while possibly slowed in recent months as a result of more moderate economic growth and higher prices, petroleum consumption thus far in 1989 is estimated to have grown by about 2 percent.

The flat first-half performance for gasoline deliveries and the 2.4 percent decline for distillates seem to overstate the moderation in growth for these fuels, but kerosine jet fuel's slowing to a 1.6 percent increase was roughly in line with air traffic trends. Residual fuel oil deliveries still rose an estimated 6.2 percent, however, while deliveries of other oils continued at around last year's roughly 2 percent rate.

Refinery activity continued to rise in the first half, with utilization of capacity in actual operation—reaching more than 93 percent in June—similar to levels reached in the 1970s. Gasoline output for the month reached nearly 7.4 million B/D, the highest ever produced for the month of June.

PRODUCT SUPPLIED [1]

Gasoline

CONSUMPTION GROWTH MAY BE SLOWING.

Gasoline figures for the first six months illustrate some of the difficulties in tracking deliveries data on a current basis. What had been a moderate, 1.4 percent year-to-date increase for gasoline deliveries in last month's report has now slipped to "no change" for the first six months. Several factors account, at least arithmetically, for this seemingly large shift. First, the year-ago data now reflect the Department of Energy's annual revision, which, as has been typical in recent years, has resulted in slightly higher 1988 deliveries figures. Second, DOE's recently-released April deliveries figure was less than API's estimate and decidedly below the trend of the previous months. Finally, deliveries last June were substantially above trend, converting

	API ESTIMATES JUNE		YEAR-TO-DATE	
	Million B/D	Percent Change	Million B/D	Percent Change
Total domestic deliveries	17.0	(0.4)	17.2	0.6
Crude production[2]	7.6	(6.6)	7.8	(6.2)
Total imports[3]	8.0	11.5	7.8	9.0
Stocks (million bbl)[4]	1,055	(0.6)	na	na

this June's deliveries change from what would have been a moderate increase into an 0.3 percent decline.

Beyond these technical considerations, it would seem that the moderating of the economy and recent higher prices have begun to have a restraining effect on gasoline demand, but not to the extent that the flat first half's deliveries estimate might imply. June's deliveries, for example, compared against a more normal level a year ago, would still have shown about a 1.4 percent increase.

Data on travel, which had posed some problems in interpretation earlier this year due to unusual fluctuations, now suggest more clearly that the economy and higher prices are having some slackening effect on demand. The year-to-year increase of 2.8 percent for April (the latest available) was more than half a percentage point below last year's annual average increase in miles traveled. Though the extent to which the economy and other factors have slowed travel and gasoline consumption since then is not completely clear, it is unlikely that gasoline consumption has flattened out entirely, but rather is growing at perhaps only a 1 to 1.5 percent rate.

Distillates

FIRST-HALF DROP MAY OVERSTATE WEAKNESS. As with gasoline, distillate fuel oil's first-half decline of 2.4 percent, or about 75 thousand B/D, though serving as an indicator of moderation in consumption growth, appears to overstate the weakness in demand for this product. Some of the first half's deliveries decline stemmed from temporary factors, particularly the first quarter's substantially warmer weather which depressed heating oil consumption by enough to account for perhaps two thirds of the first half's year-to-year decline. Revision of first half 1988 data also cut this year's year-to-date increase by about 24 thousand B/D. Even so, some moderation in distillate consumption growth has likely been taking place, slowing from the pace that put deliveries growth at an average 3 percent per year over the past three years and at nearly 5 percent last year alone.

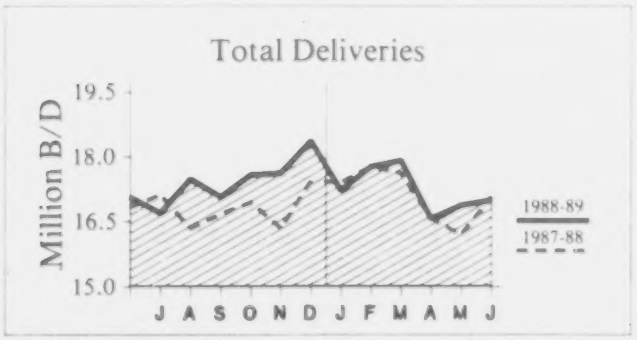
Data on the for-hire segment of the trucking industry have been showing 2 to 3 percent declines in the most recent months. However, industrial production and other economic data continue to show year-to-year increases, but smaller ones, an indication that the demand for on-highway diesel transportation as a whole is likely still rising modestly. Based on these trends, industrial distillate use would also be expected to be at least holding its own.

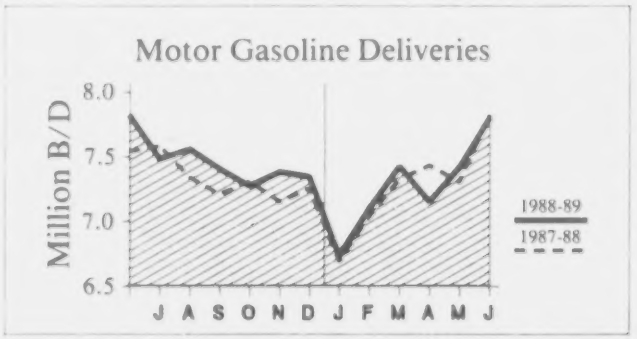
Rail traffic, too, though down by an estimated 1 percent in June, was up slightly for the first six months as a whole. Thus, recent indicators suggest that distillate consumption growth has continued in recent months, though likely at a more moderate pace than in 1988—perhaps on the order of 2 to 2.5 percent.

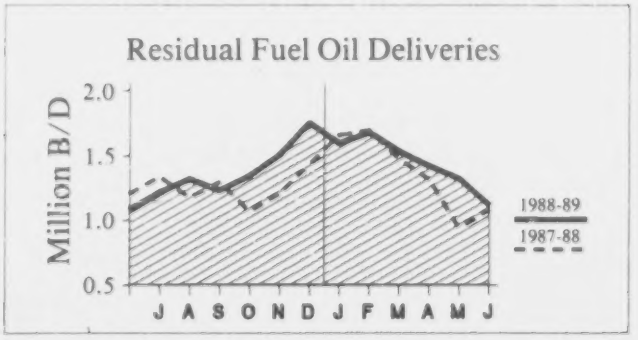
Residual Fuel Oil

ELECTRIC UTILITIES CONTRIBUTE TO FIRST-HALF RISE. Deliveries of residual fuel oil during the first half of the year averaged 1,446 thousand B/D, an increase of 6.2 percent from 1988. In June, deliveries are estimated to have been 1,120 thousand B/D, representing a decline of 15.4 percent from May but an increase of 3.4 percent from last year.

Electric utilities accounted for most of the increase in heavy fuel oil deliveries during the first half of the year. After adjustment for leap year effects, electricity generation increased by approximately 3 percent. Although output from hydroelectric and coal-fired sources increased in line with the increase in overall electricity demand, an estimated 5 percent decline in nuclear generation resulting from higher-than-anticipated downtime as well as periodic interruptions in gas supplies earlier







in the year resulted in an estimated increase in heavy fuel oil deliveries of more than 20 percent. Direct consumption is estimated to have grown even faster—almost 30 percent—with secondary and tertiary stock drawdowns supplying as much as a third of that increase in demand.

Deliveries of heavy fuel oil to the industrial sector, however, are believed to have grown only slightly during the first half of the year, with much of the slowdown in that increase apparently occurring during the second quarter. The impact of declining natural gas prices during the past several weeks as well as recent slower growth in industrial activity have apparently slowed growth in deliveries to this sector.

Bunker fuel deliveries were believed to have declined by between 2 and 3 percent during the first half of 1989 from levels of last year. Having risen steadily for several years, the decline indicates an apparent reversal of that trend. The shift, however, apparently reflects the displacement of potential sales of domestic bunker fuel—especially on the East and Gulf coasts—by more competitively priced fuel in European markets rather than a decline in shipping activity.

Kerosine Jet Fuel

DELIVERIES' GROWTH SLOWS WITH AIR TRAFFIC. Kerosine jet fuel deliveries rose 1.6 percent for the first half, less than half of last year's annual increase and reflecting recent trends in air traffic. Growth in deliveries last year, though still a little less than 5 percent, had already slowed from the 7 to 10 percent rates of the prior two years as the earlier, healthy growth in air traffic continued to moderate.

So far this year, the economy, higher fares, and strike activity have all helped to slow the growth in air traffic. Although first-half cargo traffic and international passenger travel were both up roughly 10 percent, an estimated 3 percent decline in domestic passenger traffic kept the increase in overall traffic to 1 percent or less. The weakness in air traffic growth was particularly apparent for the second quarter. While miles flown in the first quarter had risen only about 2 percent, the second quarter is estimated to have been flat to down slightly.

Other Oils

UP 2 PERCENT FOR FIRST HALF. Deliveries of other oils during the first six months of 1989 averaged 4,089 thousand B/D, an increase of 2.0 percent from the previous year. In June, deliveries were estimated to have been 3,967 thousand B/D, a decrease of 0.5 percent from last year.

Petrochemical products are believed to have accounted for most of the increase in other oils' deliveries for the first half of the year. Liquefied petroleum gas deliveries are estimated to have increased by more than 3 percent. Butane was the fastest growing product in that group, having expanded by an estimated 6 to 7 percent. The increased availability of butane as a petrochemical feedstock is believed to have resulted from EPA-mandated gasoline vapor pressure restrictions which have resulted in the reduced use of butane as an octane enhancer. Deliveries of propane, the largest LPG component, are believed to have grown by 4 to 6 percent. Ethane deliveries, however, are estimated to be similar to those of last year, having lost ground to other feedstocks. Heavier feedstocks—naphtha and gasoil—are estimated to have increased by 8 to 10 percent as a result of robust demand from petrochemical refiners.

Because of unusually wet weather in much of the country, asphalt and road oil deliveries are estimated to have been 2 to 3 percent less than those of the first half of last year. Refinery gas production, accounting for one sixth of total other oils deliveries, is believed to have been similar to that of the same period last year.

SUPPLY[1]

Production

ALASKA'S DROPOFF ACCELERATES U.S. DECLINE. Domestic crude oil production fell by 513 thousand B/D in the first half, accelerating from the 210 to 330 thousand B/D annual declines of the recent past. The decline brought domestic crude oil output to less than 7.8 million B/D, the lowest for a similar period in 25 years.

Increases in Alaskan production, which had been offsetting the lower 48's decline by 40 to 100 thousand B/D in each of the past three years, were reversed in 1989 as production for that state declined 143 thousand B/D for the first half. Only about half of that decline was the result of reduced North Slope production arising from temporary restrictions on tanker traffic following the Valdez accident in late March. Other than a 25 thousand B/D decline in the first half of 1981, this was Alaska's first year-to-year decline for a six-month period since North Slope production began in late 1977.

Lower 48 production also continued to decline, falling about 370 thousand B/D, year to year, in this year's first half. By midyear, production outside Alaska was estimated to be down by roughly 20 percent since early 1986, a decline of about 1.5 million B/D. Based on preliminary data, the decline trend so far this year in lower 48 production appears to be continuing at the rate of about 350 thousand B/D per year, similar to what is now estimated from a trend fitted to 1988 monthly data.

Natural gas liquids production, however, which accounts for roughly 1.6 million B/D of domestic supply in addition to crude oil production, has held steady in recent years, even rising slightly. For the first six months, petroleum liquids extracted from natural gas streams have risen an estimated 33 thousand B/D or 2 percent.

Imports

FIRST HALF HIGHEST IN TEN YEARS. Despite slower growth in deliveries, the rapid decline in domestic production for the first half led to a substantial increase in imports. After rising 11.3 percent in 1988, imports rose at close to the same rate, 9 percent, in the first half of this year, to 7.8 million B/D. This represents a roughly 65 percent increase from levels of only four years ago and the highest level for a similar period in ten years.

As a result of this increase, total imports as a percentage of domestic deliveries rose to 45.4 percent in the first half. This

was up from 42.0 percent one year earlier, but still slightly short of the all-time annual high of 47.7 percent set in 1977.

Product imports rose 114 thousand B/D, or 5.1 percent, for the first six months of 1989, with the largest part of the increase accounted for by residual fuel oil. Imports of gasoline and components were nearly even with those of a year ago, based on current data. Distillate imports were up 15 thousand B/D, while residual fuel oil imports rose 92 thousand B/D.

Refinery Operations

ACTUAL UTILIZATION ABOVE 93 PERCENT DURING JUNE.

Refinery activity continued to rise in the first half of 1989, with input to distillation units rising 0.6 percent, year to year. Input for June rose 2.7 percent and gasoline output, at nearly 7.4 million B/D, was the highest ever recorded for that month.

It should be noted that part of the apparent increase in the utilization rate from 83.8 percent in last year's first half to 85.6 percent so far this year is accounted for by the decrease shown in the data for "operable capacity". This, however, is the result of statistical reclassification of existing capacity rather than of a physical decrease.

Further caution is necessary in using "operable capacity" figures, since not all capacity listed as operable has been in recent operation. According to government data, 350 thousand B/D of "operable capacity" has been out of operation for more than a year—but this counts only complete refineries. Capacity in actual operation has never exceeded about 15.1 million B/D in the past year, contrasted with "operable capacity" which has been reported at over 15.9 million B/D.

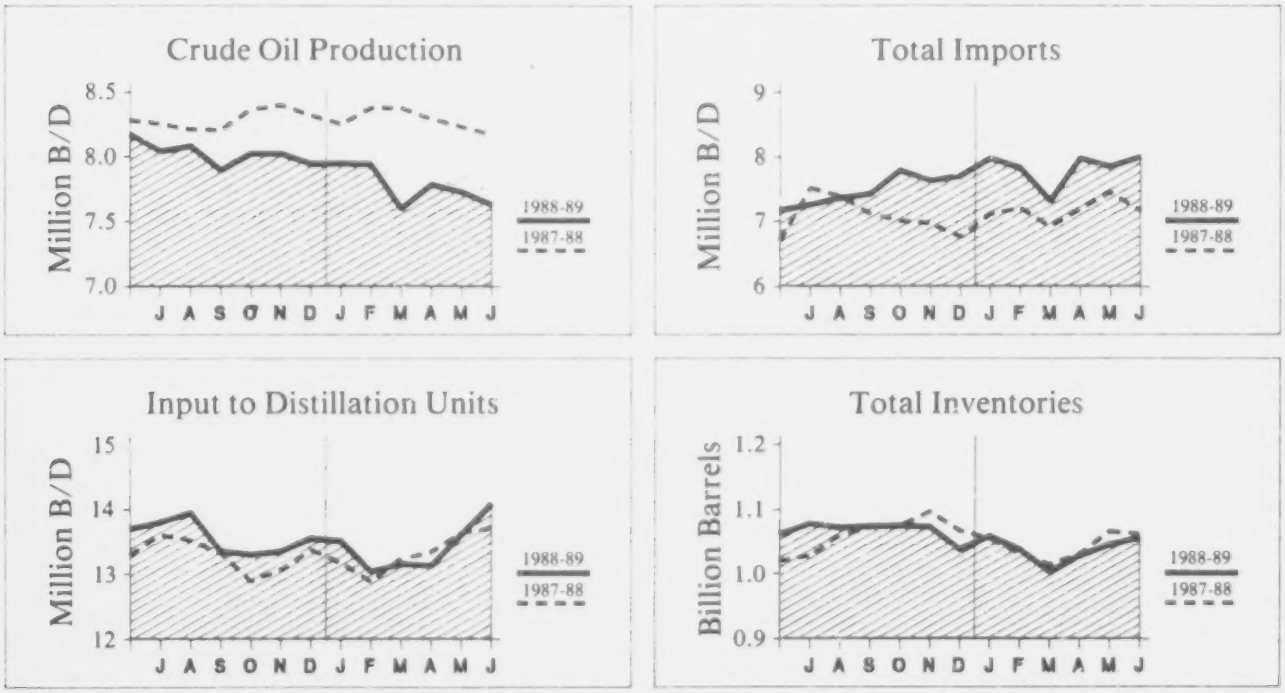
Thus, June's utilization rate of 89.8 percent of operable capacity, when re-computed on the basis of capacity in actual operation, rises to more than 93 percent—in the same range as the recent-year peak set last August of 93.7 percent. These rates are similar to those reached in the late 1970s.

Finally, these utilization rates include only the initial distillation phase of refinery operations. Downstream operations, such as those that play a major role in gasoline production, are not directly measured by these figures.

Inventories

TOTAL STOCKS RISE 10 MILLION BARRELS.

Total stocks rose 10 million barrels in June, ending the month slightly below the level of last June. Gasoline stocks dropped only slightly, and at 220 million barrels, were within the 210-230 million barrel range experienced for June in recent years. Distillate stocks rose slightly for June to 161 million barrels, while crude oil stocks declined by 11 million barrels to 334 million barrels.



1/ Total supply, i.e., production plus imports adjusted for net stock change is equal to total products supplied from primary storage. Total products supplied from primary storage less exports is equal to total domestic products supplied. Information contained in this report is derived from information published in the API Weekly Bulletin and is based on historical analysis of the industry. All data reflect the most current information available to the API and include all previously published revisions.

2/ Includes lease condensate.

3/ API data do not include crude oil imported for the Strategic Petroleum Reserve (SPR) nor crude oil stocks held in the SPR (according to the U.S. Department of Energy, the SPR held approximately 572 million barrels as of June 30, 1989).

ESTIMATED UNITED STATES PETROLEUM BALANCE

(Daily Average in Thousands of 42 Gallon Barrels)

Products Supplied/Supply From Primary Storage	JUNE			YEAR-TO-DATE		
	1989[1]	1988[2]	% Change	1989[3R]	1988[2]	% Change
Products Supplied:						
Total motor gasoline	7,795	7,817	(0.3)	7,264	7,266	-
Finished leaded motor gasoline*	898	1,481	(39.4)	959	1,420	(32.5)
Finished unleaded motor gasoline*	6,897	6,336	8.9	6,305	5,846	7.9
Naphtha-jet	200	215	(7.0)	200	211	(5.2)
Kerosine-jet	1,218	1,206	1.0	1,249	1,229	1.6
Distillate fuel oil	2,828	2,854	(0.9)	3,118	3,194	(2.4)
Residual fuel oil	1,120	1,083	3.4	1,446	1,361	6.2
All other oils[4]	3,967	3,985	(0.5)	4,089	4,009	2.0
Reclassified[5]	- 144	- 101	42.6	- 160	- 175	(8.6)
Total domestic products supplied	16,984	17,059	(0.4)	17,206	17,095	0.6
Exports	835	938	(11.0)	834	835	(0.1)
Total products supplied	17,819	17,997	(1.0)	18,040	17,930	0.6
Supply:						
Domestic production:						
Crude oil[6]	7,628	8,170	(6.6)	7,767	8,280	(6.2)
Natural gas liquids	1,658	1,616	2.6	1,647	1,614	2.0
Other supply[7]	886	907	(2.3)	905	833	8.6
Total domestic supply	10,172	10,693	(4.9)	10,319	10,727	(3.8)
Imports:						
Crude oil, total	5,957[10/]	5,252[10/]	13.4	5,482[10/]	4,952[10/]	10.7
Canadian	645	744	(13.3)	630	688	(8.4)
Other	5,312	4,508	17.8	4,852	4,264	13.8
Products, total	2,037	1,917	6.3	2,337	2,223	5.1
Residual fuel oil	538	336	60.1	694	602	15.3
Other	1,499	1,581	(5.2)	1,643	1,621	1.4
Total imports	7,994	7,169	11.5	7,819	7,175	9.0
Total supply	18,166	17,862	1.7	18,138	17,902	1.3
Stock change, all oils	+ 347	- 135	XXXX	+ 98	- 28	XXXX
Refinery Operations						
Input to crude oil distillation units	14,077	13,710	2.7	13,422	13,336	0.6
Operable capacity	15,674	15,934	(1.6)	15,676	15,912	(1.5)
Refinery utilization (%)[8]	89.8%	86.0%	4.4	85.6%	83.8%	2.1
Crude oil runs	13,934	13,487	3.3	13,241	13,107	1.0

Stocks (millions bbls.)	1989		1988[2]	% Change from ...	
	Jun. 30[9]	May 31[9]	Jun. 30	Previous Month	Year Ago
Crude oil[10/]	333.6	344.3r/	358.9	(3.1)	(7.0)
Unfinished oils	112.5	114.6r/	115.4	(1.8)	(2.5)
Total motor gasoline**	219.5	221.2r/	210.1	(0.8)	4.5
Finished leaded motor gasoline*	24.7	26.1r/	42.7	(5.4)	(42.2)
Finished unleaded motor gasoline*	156.0	155.2r/	132.2	0.5	18.0
Naphtha-jet	6.0	6.0	6.7	-	(10.4)
Kerosine-jet	40.0	39.1r/	38.8	2.3	3.1
Distillate fuel oil	100.9	98.7r/	110.4	2.2	(8.6)
Residual fuel oil	43.0	39.3r/	42.2	9.4	1.9
All other oils	199.9	181.8r/	179.3	10.0	11.5
Total all oils	1,055.4	1,045.0r/	1,061.8	1.0	(0.6)

1/ Based on API estimated data converted to a monthly basis.
2/ Source: U.S. Department of Energy.
3/ Source: January-April, U.S. Department of Energy, May-June, API.
4/ Includes crude losses.
5/ Beginning with January 1981, U.S. Department of Energy began using a new data collection system which encompasses a method to ascertain the amount of product reclassified during the production phase. So that there will be no double counting of these volumes, they are subtracted from total domestic products supplied.
6/ Includes lease condensate.
7/ Includes Unaccounted-for crude oil, Refinery input of other hydrocarbons, and Processing gain.
8/ Represents "Input to crude oil distillation units" as a percent of "Operable capacity."
9/ Derived by interpolating API weekly stocks data.
10/ Data do not include oil imported for the Strategic Petroleum Reserve (SPR) nor crude oil stocks held in the SPR.
R/ Revised.
* Included in motor gasoline.
** Includes finished leaded, finished unleaded, and motor gasoline blending components stocks.

ESTIMATED UNITED STATES PETROLEUM BALANCE

(Daily Average in Thousands of 42 Gallon Barrels)

Products Supplied/Supply From Primary Storage	2nd QUARTER		
	1989[1]	1988[2]	% Change
Products Supplied:			
Total motor gasoline	7,444	7,514	(0.9)
Finished leaded motor gasoline*	920	1,454	(36.7)
Finished unleaded motor gasoline*	6,524	6,060	7.7
Naphtha-jet	204	215	(5.1)
Kerosine-jet	1,195	1,178	1.4
Distillate fuel oil	2,861	2,837	0.8
Residual fuel oil	1,293	1,111	16.4
All other oils[3]	3,939	3,861	2.0
Reclassified[4]	- 144	- 115	25.2
Total domestic products supplied	16,792	16,601	1.2
Exports	838	809	3.6
Total products supplied	17,630	17,410	1.3
Supply:			
Domestic production:			
Crude oil[5]	7,712	8,229	(6.3)
Natural gas liquids	1,658	1,620	2.3
Other supply[6]	924	811	13.9
Total domestic supply	10,294	10,660	(3.4)
Imports:			
Crude oil, total	5,776[9/]	5,221[9/]	10.6
Canadian	633	717	(11.7)
Other	5,143	4,504	14.2
Products, total	2,158	2,051	5.2
Residual fuel oil	577	421	37.1
Other	1,581	1,630	(3.0)
Total imports	7,934	7,272	9.1
Total supply	18,228	17,932	1.7
Stock change, all oils	+ 598	+ 522	XXXX
Refinery Operations			
Input to crude oil distillation units	13,608	13,565	0.3
Operable capacity	15,671	15,910	(1.5)
Refinery utilization (%)[7]	86.8%	85.3%	1.8
Crude oil runs	13,450	13,350	0.7

Stocks (millions bbls.)	2nd QUARTER		
	1989[8]	1988[2]	% Change
Crude oil	333.6[9/]	358.9[9/]	(7.0)
Unfinished oils	112.5	115.4	(2.5)
Total motor gasoline**	219.5	210.1	4.5
Finished leaded motor gasoline*	24.7	42.7	(42.2)
Finished unleaded motor gasoline*	156.0	132.2	18.0
Naphtha-jet	6.0	6.7	(10.4)
Kerosine-jet	40.0	38.8	3.1
Distillate fuel oil	100.9	110.4	(8.6)
Residual fuel oil	43.0	42.2	1.9
All other oils	199.9	179.3	11.5
Total all oils	1,055.4	1,061.8	(0.6)

1/ Source: U.S. Department of Energy, April; May-June, API.
2/ Source: U.S. Department of Energy.
3/ Includes crude losses.
4/ Beginning with January 1981, U.S. Department of Energy began using a new data collection system which encompasses a method to ascertain the amount of product reclassified during the production phase. So that there will be no double counting of these volumes, they are subtracted from total domestic products supplied.
5/ Includes lease condensate.
6/ Includes Unaccounted-for crude oil, Refinery input of other hydrocarbons, and Processing gain.
7/ Represents "Input to crude oil distillation units" as a percent of "Operable capacity."
8/ Derived by interpolating API weekly stocks data.
9/ Data do not include oil imported for the Strategic Petroleum Reserve (SPR) nor crude oil stocks held in the SPR.
* Included in motor gasoline.
** Includes finished leaded, finished unleaded, and motor gasoline blending components stocks.